

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>Shiawassee District Library</u>	County Shiawassee
Audit Date November 30, 2003	Opinion Date February 19, 2004	Date Accountant Report Submitted To State: March 25, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 1111 Michigan Avenue	City East Lansing	State Michigan	ZIP 48823
Accountant Signature <i>Plante & Moran, PLLC</i>			

Shiawassee District Library

Financial Report
November 30, 2003

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Shiawassesee District Library

Financial Report
November 30, 2003

Shiawassee District Library

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Independent Auditor's Report

To the Board of Directors
Shiawassee District Library
Owosso, Michigan

We have audited the accompanying financial statements of Shiawassee District Library as of November 30, 2003, and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of Shiawassee District Library management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Shiawassee District Library at November 30, 2003, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

February 19, 2004

Shiawasse District Library

Combined Balance Sheet All Fund Types and Account Groups November 30, 2003

	Governmental			
	Fund Types	Account Groups		Total (Memorandum Only)
		General Fixed Assets	General Long-Term Debt	
Assets	General			
Cash (Note 2)	\$ 168,558	\$ -	\$ -	\$ 168,558
Investments (Note 2)	404,020	-	-	404,020
Accounts receivable	1,930	-	-	1,930
Capital assets (Note 3)	-	460,761	-	460,761
Amount to be provided for payment of compensated absences	-	-	29,429	29,429
Total assets	\$ 574,508	\$ 460,761	\$ 29,429	\$ 1,064,698
Liabilities and Fund Balances				
Liabilities				
Accounts payable and accrued liabilities	\$ 39,307	\$ -	\$ -	\$ 39,307
Long-term debt (Note 4)	-	-	29,429	29,429
Total liabilities	39,307	-	29,429	68,736
Fund Balances				
Investment in general fixed assets	-	460,761	-	460,761
Fund balances - Unreserved:				
Designated for:				
Community modern pool	5,000	-	-	5,000
Building expansion	92,500	-	-	92,500
Durand lease	2,000	-	-	2,000
Penal fines stabilization fund	110,300	-	-	110,300
Digitization project	12,500	-	-	12,500
Literacy support	850	-	-	850
Equipment replacement	10,000	-	-	10,000
Budgeted working capital	100,000	-	-	100,000
Undesignated	202,051	-	-	202,051
Total fund balances	535,201	460,761	-	995,962
Total liabilities and fund balances	\$ 574,508	\$ 460,761	\$ 29,429	\$ 1,064,698

Shiawassee District Library

Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual All Governmental Fund Types Year Ended November 30, 2003

	General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenue			
Property taxes	\$ 597,350	\$ 597,514	\$ 164
Grants	500	500	-
State aid	24,200	24,221	21
Private donations	4,600	4,331	(269)
Penal fines	88,250	88,321	71
Interest on investments	8,800	9,905	1,105
Library fines and fees	13,950	14,870	920
Single business tax	10,950	10,985	35
Video rentals	5,200	5,352	152
Miscellaneous	300	282	(18)
Total revenue	754,100	756,281	2,181
Expenditures			
Salaries and wages	364,200	361,654	2,546
Compensated absences	3,350	3,356	(6)
Payroll taxes	28,150	27,943	207
Employee benefits	56,250	52,750	3,500
Pension (Note 7)	3,250	-	3,250
Supplies	21,600	20,087	1,513
Professional services	23,000	24,823	(1,823)
Membership and dues	2,000	1,914	86
Education and training	6,200	4,870	1,330
Capital outlay - Equipment	36,000	17,854	18,146
Utilities	21,350	18,498	2,852
Maintenance and repairs	18,850	13,233	5,617
Library materials	108,200	103,733	4,467
Postage	8,000	7,401	599
State aid	24,200	23,937	263
Insurance	13,150	13,117	33
Other	650	554	96
Total expenditures	738,400	695,724	42,676
Revenue Over Expenditures	15,700	60,557	44,857
Fund Balances			
December 1, 2002	474,644	474,644	-
November 30, 2003	<u>\$ 490,344</u>	<u>\$ 535,201</u>	<u>\$ 44,857</u>

Shiawassee District Library

Notes to Combined Financial Statements November 30, 2003

Note 1 - Nature of Organization and Summary of Significant Accounting Policies

Effective July 1, 1994, the City of Owosso, the City of Durand, and Bennington, Owosso, and Rush Townships signed a district library agreement, creating the Shiawassee District Library. The Library district is comprised of all the territory that is currently located in the jurisdictional limits of the Township of Bennington, the Township of Owosso, the Township of Rush, the City of Durand, and the City of Owosso. The Library is funded through property taxes, fines, fees, grants, state aid, and donations. The voters of the districts approved a 1.25 mill tax for a ten-year period, which begins with a tax levy effective December 31, 2002. This millage provides for funding of Library operations through December 1, 2011.

The Library is governed by an eight-member Board. The Board consists of three members appointed by the City of Owosso, two members appointed by the City of Durand, and one member appointed by each of the townships. In accordance with accounting principles generally accepted in the United States of America, there are no component units to be included in these financial statements.

The accounting policies of Shiawassee District Library conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity

The accompanying general purpose financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing relationships.

Fund Accounting

The accounts of Shiawassee District Library are organized on the basis of a General Fund, a General Fixed Assets Account Group, and a General Long-Term Debt Account Group, each of which is considered a separate accounting entity.

General Fund - The General Fund contains the records of the general financial activities of Shiawassee District Library. General Fund activities are financed by property tax collections and other revenue.

Shiawassee District Library

Notes to Combined Financial Statements November 30, 2003

Note I - Nature of Organization and Summary of Significant Accounting Policies (Continued)

Basis of Accounting

The General Fund follows the modified-accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

- a. Revenue that is both measurable and available for use to finance operations is recorded as revenue when earned. Certain miscellaneous revenue is recorded when received.
- b. Payments for inventoriable types of supplies are recorded as expenditures at the time of purchase.
- c. Normally, expenditures are not subdivided between years by the recording of prepaid expenses.
- d. The noncurrent portion of accumulated compensated absences liability is reflected in the General Long-Term Debt Account Group.

Property Taxes - Properties taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

Library's 2002 tax is levied and collectible on December 1, 2002, and is recognized as revenue in the year ended November 30, 2003, when the proceeds of the levy are budgeted and available for the financing operations.

Fixed Assets - Fixed assets are accounted for in the General Fixed Assets Account Group, rather than in the General Fund. Such assets are recorded as expenditures in the General Fund at the time of purchase. No depreciation has been provided on general fixed assets.

Library books included on the shelves are recorded at one dollar per item. Other fixed assets are recorded at cost or, if donated, at their estimated fair value on the date donated.

Long-Term Liabilities - Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group, not in the governmental funds.

The General Fixed Assets Account Group and the General Long-Term Debt Account Group are not funds and do not involve the measurement of results of operations.

Shiawassee District Library

Notes to Combined Financial Statements November 30, 2003

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (Continued)

Memorandum-Only Totals - The total data presented is the aggregate of the fund types and account group and is presented for analysis purposes only. No consolidating or other eliminations were made in arriving at the totals; therefore, they do not present consolidated information.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Deposits

Michigan Compiled Law Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Library is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; banker's acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of the purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The Library has designated four banks for the deposit of its funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investments as allowed by authority as listed above.

The Library's deposits and investment policies are in accordance with statutory authority.

The Library's deposits at November 30, 2003, are included on the balance sheet under the following classifications:

	Balance Sheet Classification		
	Cash	Investments	Total
Deposits	\$ 168,558	\$ 404,020	\$ 572,578

Shiawassee District Library

Notes to Combined Financial Statements November 30, 2003

Note 2 - Deposits (Continued)

The above deposits were reflected in the accounts of the bank (without recognition of checks written, but not yet cleared, or of deposits-in-transit) at \$582,159. Of that amount, \$500,000 was covered by federal depository insurance, and \$82,159 was uninsured and uncollateralized. The Library believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Library evaluates each financial institution it deposits Library funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 3 - Capital Assets

A summary of the changes in general fixed assets follows:

	Balance December 1, 2002	Additions	Deletions	Balance November 30, 2003
Furniture and equipment	\$ 350,784	\$ 23,303	\$ 3,412	\$ 370,675
Library books	81,597	4,219	4,574	81,242
Building improvements	8,844	-	-	8,844
Total	<u>\$ 441,225</u>	<u>\$ 27,522</u>	<u>\$ 7,986</u>	<u>\$ 460,761</u>

The library books are recorded at one dollar per item. The replacement value, based on trade publications average costs adjusted for discounts and processing costs applicable to Library purchases, was approximately \$2,276,000 at November 30, 2003.

Shiawassee District Library leases buildings from the City of Owosso and the City of Durand at a nominal amount. The buildings are recorded in the general fixed assets account group of the cities.

Shiawassee District Library

Notes to Combined Financial Statements November 30, 2003

Note 4 - Long-Term Debt

A summary of long-term obligations follows:

	Balance December 1, 2002	Additions	Deletions	Balance November 30, 2003
Compensated absences	<u>\$ 27,282</u>	<u>\$ 2,147</u>	<u>\$ -</u>	<u>\$ 29,429</u>

The compensated absences represent the estimated liability to be paid governmental fund type employees under the Library's sick and vacation pay policy, net of the portion that is estimated will be paid currently. Under the Library's policy, employees earn sick and vacation time based on time of service with the Library.

Note 5 - Budget Information

The annual budget is prepared and adopted by the Library Board of Trustees; subsequent amendments are approved by the Board. Unexpended appropriations lapse at year-end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at November 30, 2003, has not been calculated. During the current year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The General Fund budget has been approved on an activity basis. A comparison of actual results of operations to the budget included in the combined financial statements shows line item activity, which is in greater detail than the actual budget as adopted by the Library Board. A comparison of actual results of operations to the General Fund budget as adopted by the Library Board is available at the Library's office for inspection.

Shiawassee District Library

Notes to Combined Financial Statements November 30, 2003

Note 6 - Risk Management

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance for employee medical benefits. The Library participates in the Michigan Municipal Risk Management Authority for property loss, torts, and errors and omissions claims. The Library participates in the Michigan Municipal League program for Workers' Compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal Risk Management Authority's State Pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. A portion of the excess insurance coverage is underwritten by the Authority itself.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 7 - Pension Plan

Plan Description

The Library participates in the Michigan Municipal Employees' Retirement System, an agent, multiple-employer defined benefit pension plan that covers all full-time employees of the Library. The System provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy

The obligation to contribute to and maintain the System for these employees was established by Board approval and requires a contribution from the employees of 6 percent.

Shiawassee District Library

Notes to Combined Financial Statements November 30, 2003

Note 7 - Pension Plan (Continued)

Annual Pension Cost

For the year ended November 30, 2003, the Library's annual pension cost of \$0 was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2000, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return, (b) projected salary increases of 4.50 percent per year, and (c) additional projected salary increases of zero to 4.16 percent per year, depending on age, attributable to seniority/merit. Both (a) and (b) include an inflation component of 4.50 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period.

Trend Information

	Fiscal Year Ended November 30		
	2001	2002	2003
Annual pension cost	\$ 222	\$ -	\$ -
Percentage of annual pension cost contributed	100%	100%	100%
Net pension obligation	-	-	-

Actuarial valuation as of December 31	2000	2001	2002
Actuarial value of assets	\$ 935,341	\$ 1,027,173	\$ 1,072,403
Actuarial accrued liability (entry age)	\$ 847,796	\$ 961,091	\$ 1,054,484
(Overfunded) unfunded actuarial accrued liability	\$ (87,545)	\$ (66,082)	\$ (17,919)
Funded ratio	110.3%	106.9%	101.7%
Covered payroll	\$ 259,284	\$ 274,615	\$ 245,921

Shiawassee District Library

Notes to Combined Financial Statements November 30, 2003

Note 8 - Upcoming Reporting Change

For the year beginning December 1, 2003, the Library plans to adopt GASB Statement Number 34. This will dramatically revise the information being reported in these financial statements. Governmental activities will report information by individually significant fund, as well as in total on the full accrual basis of accounting. Information is not available to present pro-forma data that would show the effect of this future change.